



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

| | | | |
|-------------------------|-------------|----------------|--|
| Bill # | HB0572 | Title: | Revise treasure state endowment program laws |
| Primary Sponsor: | Cuffe, Mike | Status: | As Introduced |

- | | | |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

| | <u>FY 2016 Difference</u> | <u>FY 2017 Difference</u> | <u>FY 2018 Difference</u> | <u>FY 2019 Difference</u> |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Expenditures: | | | | |
| General Fund | \$0 | (\$2,520,000) | \$0 | \$0 |
| State Special Revenue | \$0 | \$0 | \$0 | \$0 |
| Revenue: | | | | |
| General Fund | \$0 | (\$2,520,000) | (\$3,320,000) | (\$3,400,000) |
| State Special Revenue | \$0 | \$3,370,000 | \$3,470,000 | \$3,750,000 |
| Net Impact-General Fund Balance: | <u>\$0</u> | <u>\$0</u> | <u>(\$3,320,000)</u> | <u>(\$3,400,000)</u> |

Description of fiscal impact: This bill revises laws related to the Treasure State Endowment Regional Water Program. Current law states that after June 30, 2016, the 25% distribution from coal severance tax revenue to the Treasure State Endowment Regional Water (TSERW) fund will cease and the balance in the fund will be transferred to the coal severance tax permanent fund. HB 572 continues the 25% transfer to the TSERW fund indefinitely.

FISCAL ANALYSIS

Assumptions:

- Article IX, Section 5 of the Montana Constitution established a coal severance tax trust fund into which at least half of coal severance tax revenues must be deposited. Currently 50% of coal severance tax revenues are deposited into the trust fund. The trust fund is composed of a number of separate funds (17-5-703,

- MCA). One of these funds is the TSERW fund. Interest earnings from the TSERW fund are used to assist local governments in financing regional water, wastewater, and sanitation projects (90-6-715, MCA).
2. At the beginning of each fiscal year, the state treasurer is required to determine the amount necessary to meet all principal and interest payments on bonds payable from the coal severance tax bond fund during the next 12 months and retain that amount in the bond fund. Any remaining amounts above this are distributed to certain other funds using a formula set in statute, including the TSERW fund which currently receives 25% of the distribution (17-5-703(3)(b), MCA). Under current law, the TSEP regional water fund ceases to exist after June 30, 2016, with the existing corpus and the 25% distribution from the coal severance tax bond fund being allocated to the coal severance tax permanent fund.
 3. The elimination of the TSERW fund under current law would result in approximately \$94,233,000 of corpus being transferred from the TSERW fund to the coal severance tax permanent fund. The increased corpus in the coal severance tax permanent fund would increase interest earnings from the fund starting in FY 2017. Since interest earnings from the coal severance tax permanent fund are deposited to the general fund, this would have a positive impact on general fund revenue and is incorporated into the HJ 2 estimate for coal trust interest earnings.
 4. Based on current law, the 25% distribution from the coal severance tax bond fund to the TSERW fund would be allocated to the coal severance tax permanent fund beginning in FY 2017. This increase to the fund balance in the coal severance tax permanent fund would increase interest earnings from the fund, leading to an increase in general fund revenue and is incorporated into the HJ 2 estimate for coal trust interest earnings.
 5. The provisions of HB 572 will keep the balance in the TSERW regional water fund intact and continue the 25% distribution from the coal severance tax bond fund indefinitely. With the continued distribution, the balance in the TSERW fund is estimated to grow to \$103,826,000 in FY 2017, \$114,411,000 in FY 2018, and \$126,095,000 in FY 2019.
 6. The impact of HB 572 is a net loss to general fund revenue through forgone interest earnings on the corpus in the coal severance tax permanent fund. Since the bill retains the TSERW fund, there is a positive impact to state special revenue through continued interest earnings on the corpus of the fund.
 7. The TSERW fund earns interest. That interest is appropriated and used for regional water projects, including construction planning and administration of the water systems.
 8. The following table shows the distribution, fund balance, and spendable interest earnings pertaining to the TSERW fund for FY 2017 through FY 2019 as they would exist under the provisions of HB 572.

| TSERW Present Law | FY 2017 | FY 2018 | FY 2019 |
|--|----------------|----------------|----------------|
| 25% Distribution from Coal Severance Tax | \$0.00 | \$0.00 | \$0.00 |
| Average Fund Balance | \$0.00 | \$0.00 | \$0.00 |
| Spendable Interest Earnings | \$0.00 | \$0.00 | \$0.00 |
| TSERW HB 572 Proposed Law | | | |
| 25% Distribution from Coal Severance Tax | \$7.69 | \$7.62 | \$7.78 |
| Average Fund Balance | \$100.16 | \$110.36 | \$121.62 |
| Spendable Interest Earnings | \$3.37 | \$3.47 | \$3.75 |
| Difference | | | |
| 25% Distribution from Coal Severance Tax | \$7.69 | \$7.62 | \$7.78 |
| Average Fund Balance | \$100.16 | \$110.36 | \$121.62 |
| Spendable Interest Earnings | \$3.37 | \$3.47 | \$3.75 |

9. The following table shows the reduction to general fund revenue for FY 2017 through FY 2019, and the net FY 2017 impact of HB 572 on the statutory appropriation to the Montana Public Employees' Retirement System. Because the statutory appropriation is capped at \$21 million through FY 2019 there is no expenditure reduction assumed in FY 2018 and FY 2019 as the general fund revenue from coal trust interest less the 15-35-108, MCA, statutory appropriation exceeds \$21 million under current law, as well as under the changes proposed in HB 572.

| Present Law | FY 2017 | FY 2018 | FY 2019 |
|--|----------------|----------------|----------------|
| HJ 2 General Fund Coal Trust Interest Earnings | \$22.49 | \$30.44 | \$31.15 |
| 15-35-108, MCA, Statutory Appropriations | \$3.07 | \$3.07 | \$3.07 |
| PERS Defined Benefit Plan SA | \$19.42 | \$21.00 | \$21.00 |
| HB 572 Proposed Law | | | |
| General Fund Coal Trust Interest Earnings | \$19.97 | \$27.12 | \$27.75 |
| 15-35-108, MCA, Statutory Appropriations | \$3.07 | \$3.07 | \$3.07 |
| PERS Defined Benefit Plan SA | \$16.90 | \$21.00 | \$21.00 |
| Net Reduction to General Fund Revenue | (\$2.52) | (\$3.32) | (\$3.40) |
| Net Reduction to PERS Defined Benefit Plan SA* | (\$2.52) | \$0.00 | \$0.00 |
| *15-35-108(9)(b)(v) PERS Defined Benefit Plan SA is capped at \$21 million through FY 2019 | | | |

| | <u>FY 2016 Difference</u> | <u>FY 2017 Difference</u> | <u>FY 2018 Difference</u> | <u>FY 2019 Difference</u> |
|---|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| <u>Fiscal Impact:</u> | | | | |
| <u>Expenditures:</u> | | | | |
| 15-35-108 PERS SA | \$0 | (\$2,520,000) | \$0 | \$0 |
| TOTAL Expenditures | \$0 | (\$2,520,000) | \$0 | \$0 |
| <u>Funding of Expenditures:</u> | | | | |
| General Fund (01) | \$0 | (\$2,520,000) | \$0 | \$0 |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| TOTAL Funding of Exp. | \$0 | (\$2,520,000) | \$0 | \$0 |
| <u>Revenues:</u> | | | | |
| General Fund (01) | \$0 | (\$2,520,000) | (\$3,320,000) | (\$3,400,000) |
| State Special Revenue (02) | \$0 | \$3,370,000 | \$3,470,000 | \$3,750,000 |
| TOTAL Revenues | \$0 | \$850,000 | \$150,000 | \$350,000 |
| <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u> | | | | |
| General Fund (01) | \$0 | \$0 | (\$3,320,000) | (\$3,400,000) |
| State Special Revenue (02) | \$0 | \$3,370,000 | \$3,470,000 | \$3,750,000 |

Technical Notes:

1. Financial analysis of HB 454 in the 2013 Legislative session assumed the corpus of the TSERW fund would remain intact beyond June 30, 2016.

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date